



## STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board

Ben Ysursa, Secretary of State

Lawrence G. Wasden, Attorney General

Donna M. Jones, State Controller

Tom Luna, Superintendent of Public Instruction

George B. Bacon, Secretary to the Board

### Final Minutes Regular Land Board Meeting February 21, 2008

The regular meeting of the Idaho State Board of Land Commissioners was held on Thursday, February 21, 2008 in Boise, Idaho. The meeting began at 9:05 a.m. in the second floor courtroom of the Borah Post Office building. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Ben Ysursa

Honorable Attorney General Lawrence Wasden

Honorable State Controller Donna Jones

Honorable Superintendent of Public Instruction Tom Luna

Secretary to the Board Director George Bacon

### ITEM NOT ON THE AGENDA

#### • AUDIENCE WITH THE BOARD

Representatives Bob Nonini (District 5, Kootenai County) and Eric Anderson (District 1, Bonner and Boundary Counties) were granted an audience with the Board to present House Bill 500.

Representative Nonini stated that as Chairman of the House Education Committee he has spent a lot of time researching public education funding and how it relates to Idaho's endowment lands. In that regard, Representative Nonini and Representative Anderson presented information that they believe will provide the Land Board with extra tools to help in the management and maximizing of financial returns on endowment lands. He noted that funding for Idaho's public schools is linked in part to the beneficial management and productive utilization of Idaho's 2.5 million acres of endowment lands. Utilizing these endowment lands to their fullest potential, returning the maximum long-term financial return for public schools while stimulating Idaho's rural and urban areas, may require a new management approach and use of endowed lands that simultaneously generate stable funding for the school endowment while ensuring reliable low cost energy sources for Idaho that protect the environment and promote economic growth. Representative Nonini stated he hopes that the Legislature is now encouraged to formulate public policy that promotes development of Idaho's renewable resources on state endowment lands, and he urged the Land Board to move these proposals forward.

Representative Anderson stated House Bill 500 expands the commercial uses of endowment lands to include generation of renewable energy projects. Last year House Bill 130 expanded that use to include wind and geothermal. House Bill 500 furthers the expansion to comply with all

renewable resources that exist in the 2007 energy codes, which includes woody biomass, fuel cells, low impact hydro, sun and co-generation.

Representative Anderson stated if we look to neighboring states and the successes they have had in capitalizing on the use of natural resources for energy generation, it is time for Idaho to be more creative to find solutions that can assist the Land Board. He added that this vision has been developed from conversations with Governor Otter and Office of Energy Resources Administrator Paul Kjellander.

Superintendent Luna noted that financial projections have been made. He asked what the timeline is for realizing some of those moneys. Representative Anderson responded that projections are currently under development. Representative Nonini commented that he believes additional information could be provided to the Land Board at their March meeting.

Governor Otter asked if communication towers and transmission lines are included in the Department's asset management plan. Director Bacon stated both are included as part of the asset mix.

Attorney General Wasden thanked Representatives Nonini and Anderson for appearing before the Board today. He also announced that he will be hosting an energy conference in May for the National Association of Attorneys General. The conference will take place in Coeur d'Alene. The purpose of the conference is to educate and provide Attorneys General with tools so that they can properly advise their respective governors and legislators on energy issues into the future.

## • **CONSENT**

A motion was made by Controller Jones to approve the Consent Agenda in its entirety. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

### **1. Director's Report – *approved***

- A. Interest Rate on Department Transactions – January, February 2008
- B. Timber Sale Activity Report – January 2008
- C. Timber Sale Official Transactions – January 2008
- D. Legal Matter Summary
- E. Bureau of Surface and Mineral Resources, Official Transactions – December 2007
- F. Bureau of Real Estate, Official Transactions, Land Sale – December 2007
- G. Bureau of Real Estate, Official Transactions, Easement – December 2007
- H. Fire Settlement Information

*DISCUSSION:* Regarding item B, the January 2008 Timber Sale Activity Report, Director Bacon noted that the monthly value of timber harvested in January 2008 is at a high level. The high level can be attributed to several factors, including Board policy changes on timber sale extensions and increased volumes being sent to market. The January high monthly value is a good sign in spite of timber markets being down in general.

Governor Otter asked if the price level will continue or is the market softening. Director Bacon stated timber is currently being sold at softer prices; however, prices are good considering the market. The number reported here represents material sold a few years ago that is just now being harvested so there is a delay. The Department anticipates seeing some high numbers for a while but will have to wait to see what happens through the course of the summer on sales. Mills are starting to have

seasonal shutdowns across the state, but it is getting close to that time of year when they do spring maintenance and those kinds of activities.

**2. Timber Sales – Staffed by Roger Jansson, Operations Chief-North, and Kurt Houston, Operations Chief-South – *approved***

NORTH OPERATIONS

A. Larch Mountain	CR-22-5011	2,405	MBF	Kootenai
B. Bonami Pole	CR-41-0030	295	MBF	Latah
		91,545	LF	
C. All Over Alder	CR-41-0031	4,510	MBF	Clearwater

SOUTH OPERATIONS

D. East Fork Shorts	CR-50-0144	2,905	MBF	Idaho
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*DISCUSSION:* Governor Otter stated he continues to be amazed at the prices where spruce is bringing in the same price as lodge pole pine. He asked why that is occurring. Director Bacon stated those kinds of changes have been occurring in the industry for a number of years. He noted not only is there less of a price differential by species but almost no price differential by size. It appears the construction industry is getting used to, and maybe even favoring, engineered wood products. Smaller wood can be made into any size that someone might want and yet it can be handled more efficiently and cost effectively. The trend in the industry is to try to produce smaller wood, and if larger wood is needed, they just glue it together.

Governor Otter asked if, in fact, most of the Idaho mills actually retrofitted down to a six-inch log. Director Bacon stated that is true. Some go down to two-inch top. Governor Otter asked if that limits their up side. Director Bacon stated it does. Some mills can not take anything over eleven or twelve inches in diameter.

**3. Disclaimer of Interest for the Former Bed of the Snake River, Payette County (Corpus Christi Catholic Church of Fruitland) - Staffed by Keith O'Connor, Lands Program Specialist, Bureau of Real Estate – *approved***

*DEPARTMENT RECOMMENDATION:* Direct the Department to issue a disclaimer of interest for one parcel totaling 33.63 acres of the former bed of the Snake River and to require Corpus Christi Catholic Church to pay a fee of \$600.00 to the Department of Lands for this transaction.

*BOARD ACTION:* Approved.

**4. Minutes – *approved***

A. Regular Land Board Meeting – January 17, 2008

• **REGULAR**

**5. Endowment Fund Investment Board Manager's Report – Presented by Larry Johnson, Manager of Investments**

A. Monthly Report

*DISCUSSION:* None.

B. Investment Report

*DISCUSSION:* Mr. Johnson stated that relative to the benchmark, the fund is ahead by 2.1%. Active managers are adding value and, on a year-to-date basis, six out of nine managers are ahead of their benchmarks. Governor Otter asked what percentage of the portfolio is in bonds. Mr. Johnson stated fixed income makes up 31.3% of the portfolio plus 2% in cash so about 33% as of the end of January.

C. Spending Policy Update

*DISCUSSION:* Mr. Johnson provided background information and handouts.

Each August the Endowment Fund Investment Board provides a recommendation to the Land Board on the amount of money to be distributed from each endowment fund to beneficiaries, such as public schools. The Endowment Fund Investment Board has been examining the spending policy and options and whether that policy could be enhanced. Some of the issues being discussed include actual and expected returns, volatility, beneficiaries' ability to tolerate declines, current versus future income needs and restrictions on spending principal. Mr. Johnson reviewed the handouts provided to the Board and asked for input.

Attorney General Wasden asked for assurance that good communication with the Legislature is occurring. He noted that as the state budget goes up and down, occasionally members of the Legislature ask for increases in distributions, which can affect the long-term health of the earnings reserve and permanent funds. Mr. Johnson stated good communication is occurring with the Legislature. In fact, Mr. Johnson recently provided a presentation to the House State Affairs Committee, which included a review of some of the priorities. He assured Attorney General Wasden that every opportunity is taken to communicate the strategy with the Legislature.

Governor Otter asked Mr. Johnson why the term "spending" is used rather than distribution or contribution. He is concerned that the term can be misleading. Mr. Johnson stated that "spending" is a commonly used term in the overall endowment world. However, Mr. Johnson stated he understands Governor Otter's concern and perhaps "distributions" or "distribution policy" might be clearer.

Governor Otter asked Mr. Johnson if distributions are ever earmarked or asterisked to alert the beneficiaries that a portion of the funds could be one-time money. Mr. Johnson stated stakeholders have voiced their opinions that they prefer endowment distributions to be the type of money they can count on from year to year. They have said that any type of reduction is very disruptive to their budget process. With that said, however, when reserves are above an adequate level, the EFIB will be recommending to the Board that those reserves be transferred to the Permanent Fund. Mr. Johnson stated another option that the Land Board could consider is not transferring those funds to the Permanent Fund and to make one-time distributions to the beneficiaries instead. That option is fully within the discretion of the Land Board.

Governor Otter stated that while he understands it is the Land Board's fiduciary responsibility to maximize returns, he also believes it is important for the Land Board to caution the beneficiaries as to the continuation of that distribution. He suggested that perhaps from time to time a footnote could be added to say that a percentage of the distribution is a one-time distribution to alert the beneficiary to be cautious in how the money is spent.

No action was taken on this agenda item.

**6. Request for Final Approval to Complete Land Exchange (IDL / IDFG) – Presented by Perry Whittaker, Chief, Bureau of Real Estate**

*DEPARTMENT RECOMMENDATION:* Direct the Department to complete the final exchange as proposed.

*DISCUSSION:* Controller Jones asked if the \$21,000 being paid to the Idaho Department of Fish and Game was a negotiated amount. Mr. Whittaker stated it was discussed, and the final agreement reached included the payment. Director Bacon noted that due to past land sales, the amount being paid to the Department of Fish and Game to balance the exchange will be covered by the Land Bank fund.

*BOARD ACTION:* A motion was made by Attorney General Wasden to move adoption of the Department's recommendation, which is that the Board direct the Department to complete the final exchange as proposed. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

**7. Results of Grazing Lease Auction G-3043 (Klaveano Ranches / Lazy Y Ranch) – Presented by Bob Brammer, Assistant Director, Lands, Minerals, Range**

*DEPARTMENT RECOMMENDATION:* Direct the Department to complete the final exchange.

*DISCUSSION:* A transcript is available by request from Susan Terry, Idaho Department of Lands, Post Office Box 83720, Boise, Idaho 83720-0050, [sterry@idl.idaho.gov](mailto:sterry@idl.idaho.gov).

*BOARD ACTION:* A motion was made by Secretary of State Ysursa that for the long term interest of the endowment that the Board reject all current bids, remand this matter to the Land Board Grazing Subcommittee and, in the interim, issue a one-year special permit to Klaveano Ranches. The matter would be remanded to the Subcommittee for the purpose of reviewing the current process to develop a more streamlined and transparent bidding process. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

**8. University of Idaho Forestry Camp Property at McCall (Lease M-5016) – Presented by Kurt Houston, Operations Chief-South**

*DEPARTMENT RECOMMENDATION:* Until an analysis of the U of I's request can be completed, direct the Department to do the following:

- Complete a financial analysis of the highest and best use or uses for this property versus direct use by the U of I.
- Request a legal opinion from the Attorney General's office on whether it is appropriate for the Board to allow direct use by the U of I on University Endowment property.
- Bill the U of I the 2007 lease rate of \$55,535 on Lease M-5016 payable within 30 days.
- Defer the 2008 rent increase until legal and financial reviews are complete.
- Waive the current late fees for 2008.

Upon completion of the financial analysis and Attorney General's review, bring further recommendations to the Board as to what might be in the best interests of the University Trust as soon as reasonably practicable.

*DISCUSSION:* A transcript is available by request from Susan Terry, Idaho Department of Lands, Post Office Box 83720, Boise, Idaho 83720-0050, [sterry@idl.idaho.gov](mailto:sterry@idl.idaho.gov).

*BOARD ACTION:* A motion was made by Attorney General Wasden to move the Department's recommendation with the exception of waiving the current late fees for 2008. The motion is that a

financial analysis will be completed to determine the highest and best use or uses for this property versus direct use by the University of Idaho, that a legal opinion will be requested from the Attorney General's office on whether it is appropriate for the Board to allow direct use by the University of Idaho on University Endowment property, that the University of Idaho will be billed for the 2007 lease rate of \$55,535 on lease M-5016 payable within thirty days and that the 2008 rent increase will be deferred until the legal and financial reviews are completed. Controller Jones seconded the motion. Superintendent Luna asked if the motion includes the comment at the end of the recommendation directing the Department, upon completion of the financial analysis and Attorney General's review, to bring further recommendations to the Board. Attorney General Wasden stated that would be assumed in the motion. The motion carried on a vote of 5-0.

- **INFORMATION**

**Background information was provided by those indicated as presenters (below). No Land Board action is required on the Information Agenda.**

**9. Request for Permanent Access Easement through State-Owned Lands in Adams County** – Presented by Kurt Houston, Operations Chief-South - **WITHDRAWN**

**10. Legislative Update** – Presented by George Bacon, Director

**11. Presentation – IDL's Urban and Community Forestry Program** – Presented by David Stephenson, Urban Interface Planning Program Manager, Bureau of Forestry Assistance

- **EXECUTIVE SESSION - WITHDRAWN**

There being no further business to come before the Board, at 11:29 a.m. a motion was made by Attorney General Wasden to adjourn. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

President, State Board of Land Commissioners and  
Governor of the State of Idaho

/s/ Ben Ysursa

Ben Ysursa  
Secretary of State

/s/ George B. Bacon

George B. Bacon  
Director

<p>The above-listed final minutes were approved by the State Board of Land Commissioners at the March 20, 2008 regular meeting.</p>
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